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The Indian Kattalio Game: mapping the counterfeit currency network in India

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Abstract

Purpose – The purpose of this paper is to study the counterfeit currency network in India. This research is an endeavour to bring out various layers which act as source, collection and distribution points in a counterfeit currency network in India. This paper also deals with the fake currency network and its linkages to terrorism.

Design/methodology/approach – Methodology adopted is a descriptive one which conducts a content analysis on materials derived from secondary sources supported by information from primary source data acquired through the Right to Information Act.

Findings – This paper argues that the existing measure of calculating the incidence of counterfeit notes per million is understated by the relevant stakeholders in India. This measure changes drastically when other factors such as high denomination notes and police seizures are taken into account, which has not been attempted, though it is duly acknowledged by the stakeholders. This paper has attempted to map the locations in India which act as ingress, distribution and circulation points based on evidentiary data derived from the seizure records. This paper also highlights the fact that criminal gang-operated networks of fake currency are compartmentalised, while the networks operated by terror groups are de-compartmentalised.

Practical implications – In the process, this paper attempts to enlighten stakeholders like law enforcement agencies, banking regulators and counter terrorism community on the penetration levels of the fake Indian currency note (FICN) networks in India and the need to target these important nodes or points or layers to break up the FICN network. This also highlights fund-raising mechanisms of terror groups, where FICN acts as the main funding resource for groups like the Indian Mujahideen for carrying out low-cost terror attacks.

Originality/value – The key findings of this research lie in its originality of presentation of facts in a systematic fashion.

Keywords Counterfeit currency network in India, FICN network, Financing of terrorism in India

Paper type Research paper

Introduction

Indian terror and insurgent groups have been known to be associated with criminal avenues to fill their coffers. One such criminal avenue is counterfeiting of Indian currency. Currency counterfeiting has always been the domain of criminal gangs and mafias around the world; however, recent evidence appears to strongly support the theory that terrorists are increasingly using this route to finance their operations in India. In India, the incidence of fake Indian currency notes (FICNs) is on the increase, which is predominantly playing a major part in financing terror operations. Apart from precipitating terrorism, it also has an impact on the Indian economy. Given the

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significance of FICNs in impacting the national security of India, FICN networks have become a fascinating and an interesting topic for the erudite.

Currency counterfeiting is as old as the printing of currency in India. The history of Indian currency dates back to 1770, when Bank of Hindustan introduced paper money. Bank of England introduced the currency notes in the year 1862. Later, printing of currency notes was started at Bank Note Press, Nasik Road, in the year 1928. Reserve Bank of India (RBI) took over control of Bank Note Press in 1934.

Historical citations of counterfeiting in ancient India are not uncommon. Kautilya, a great strategist, who lived in 300 BC, counterfeited one *Magadhan* coin (the currency of the Nanda kings who ruled Pataliputra) into eight coins by reminting them, using cheap metal (Sadasivan, 2011, p. 41). Thus, he bought a boy named Chandragupta for 1,000 *Magadhan* coins. Chandragupta who became Kautilya's protégé was later enthroned as the emperor of Pataliputra under the mentorship of Kautilya. Kautilya also authored "Arthasastra", which became one of the important treatises of political science in ancient India, where he lays down punishment for counterfeiting coins.

In most recent history, independent India has been plagued by counterfeit currency from 1980s. The first ever counterfeit currency was discovered in India in the 1980s. Oblivious to the future potential extent of the problem, nobody fathomed or foresaw the gravity of the issue which was going to unfold in the coming years.

Similarly and concomitantly, global instances have also buttressed the theory that counterfeiting currency is an international phenomenon. During the Second World War in 1942, an ingenious German Secret Service commander named Bernhard Kruger orchestrated a plan to flood the UK with counterfeit British Pounds. This later came to be known as "Operation Bernhard".

In the contemporary era, North Koreans mastered the art of printing South Korean currencies in the 1960s and, more recently, the US dollars known as "Super Dollars"(Perl and Nanto, 2007; Nanto, 2009). North Koreans refer to the counterfeit dollars as *Kattalio* and the trade associated with them as the *Kattalio Game*, which earned them US$15-25m in profits per annum.

Hence, to understand this deep-rooted global phenomenon in India, investigations and studies about counterfeit currencies have to take into account two dimensions – the extent of the penetration and the network and its linkages.

Extent of the penetration

Due to the criminal nature of the activity, evaluating the true extent of the problem may not be possible. Previous attempts to estimate or measure the extent of the fake notes in the market have not been conclusive. However, governments and individual experts have attempted to estimate the stock and map the extent and trends of their respective countries' fake currencies in the market. Central banks of countries like Canada (Fung and Shao, 2011a, 2011b), Australia (Cowling, 2011), the USA (Judson and Porter, 2010; Williamson, 2002) and India (Bose and Das, 2013) have all conducted studies on counterfeit currencies. Apart from these studies, which are conducted by currency management authorities, other research institutions have conducted studies related to this realm. The present convention to identify the incidence or floating levels of fake notes which is widely followed and which is accepted in calculating the fake notes detected against the total notes in circulation (NIC), which is denominated as fake notes per million. The lesser it is, the better. This relates only to the floating number in pieces and not the value of the stock.

According to Bank of Korea, South Korean fake notes were at 0.9 notes per 1 million, Japanese were at 0.2 notes per 1 million, Australian stood at 10.2 fake notes per 1 million and Canadian, Mexican and British at 28, 33.7 and 253.7 per 1 million, respectively, in 2012 (GlobalPost, 2014).

In India, the five-year average is 6.9 fake notes per 1 million from 2007 to 2012 (Bose and Das, 2013). Experts are of the view that this trend in India does not warrant an alarm when compared with the other international players based on the above metrics (Subbarao, 2010)[1]. Indeed, the figure of 6.9 notes per million looks comfortable when compared with the Canadian, Mexican and British experience. However, this figure is riddled and contestable. First, this figure includes low denominations notes, which when included would increase the total NIC, thus decreasing the actual fake notes per million, as lower denomination fake notes are very negligible (it constitutes only 5 to 7 per cent of the total notes seized), and second, this does not include fake notes detected at the law enforcement agencies end. Both these arguments would render the assumption of penetration levels being under the desired threshold levels as erroneous and, hence, contestable. However, Subbarao (2010) and Bose and Das (2013) have acknowledged the fact that the current fake notes per million figure may not be credible, as it could be much higher, if we are to factor in the duration of circulation of the notes along with the higher denomination factor. Hence, it would be only logical to clearly map the fake notes per million factoring the seizure at the police end and mapping the same with higher denomination NIC data.

To accomplish this, data from India's National Crime Records Bureau, which lists out the seizure details at the law enforcement agencies end, have to be married to the RBI data, which in all likelihood would address the "inaccuracies" or "understating the extent" cropping out of the exclusions associated with the above calculations. Table I clearly presents a different picture pertaining to the fake notes detected per million when the seizures at police stations as well as exclusion of low denomination notes are factored into the calculations. The fake notes detected per million value has constantly gone up from 2003 to 2011, with an average of 23.92. There is a considerable gap when these figures are compared with Bose and Das' (2013) estimates of fake notes detected per million[2]. Hence, India, originally placed comfortably in the company of Japan and South Korea, will find itself shifting to a new league among Canada, Mexico, etc. In spite of this, using fake notes per million is still questionable, as lesser detection levels or increased NIC will decrease the level. On the other hand, increased detection coupled with decreased NIC will push the figure up. Hence, this measure is not an ideal mechanism to understand the real gravity of the situation. However, in the absence of other metrics, this may be the only way to capture the direction of the counterfeiting activity.

There has been a marked increase in the circulation of FICN from 2003 to 2012. Higher incidence of detection levels at banks from 2008 can be attributed to the increased awareness about FICN, which coincided with the inception of the Financial Intelligence Unit in India (FIU-IND)[3] and a concomitant observer status for India in the Financial Action Task Force (FATF) in 2006[4]. Accordingly, legal provisions constituting the Unlawful Activities Prevention Act 1967 and the Prevention of Money

Table I.
Details of FICN seized or recovered (2003 to 2011)[a]

Year	Seizures total (Police) (a) (no. of notes)	Higher denominations (Police) (b) Above Rs 100 (no. of notes)	Police recovery (Value) (c) (Rs in millions)	Seizures total (Banks) (d) (no. of notes)	Higher denominations (Banks) (e) above Rs 100 (no. of notes)	Bank recovery (Value) (f) (Rs in millions)	Notes in circulation, higher denominations (Millions) (g)	Fake notes per million (b + e)/g	Total value (Rs in millions)
2003	181,047	151,115	28.6	208,096	205,817	29.2	13,575	26.29	57.8
2004	226,932	198,487	48.0	207,778	203,412	27.0	14,878	27.04	75.1
2005	220,028	201,551	48.5	141,748	134,198	20.7	15,804	21.24	69.2
2006	250,943	221,102	63.1	107,059	100,322	20.8	17,758	18.10	83.9
2007	237,531	222,730	67.0	156,187	148,385	39.7	18,989	19.54	106.8
2008	221,917	199,882	76.1	444,061	432,990	182.7	20,637	30.66	258.8
2009	241,872	220,438	91.2	376,107	361,477	141.2	21,786	26.71	232.4
2010	231,094	219,084	111.2	390,932	381,251	166.9	23,509	25.53	278.1
2011	121,998	101,304	48.8	434,194	422,707	208.9	25,957	20.18	257.8

Notes: [a] Data obtained by the researcher from NCRB vide the Right to Information (RTI) Act. Notes in circulation data obtained from annual reports of RBI from 2003-2012. National Crime Records Bureau data are for a calendar year, while the RBI data in Bose and Das (2013) as well as in the RBI annual reports pertain to a financial year. Hence, some discrepancies in seizures are bound to be there. However, the difference arising is only a minor deviation which will not alter the result drastically. An RTI Act is similar to Freedom of Information Act in the UK and the USA, which gives the right to its citizens to access records of government institutions

Laundering Act (PMLA) 2002 were amended to criminalise terrorist financing along with the establishment of institutions like the National Investigation Agency (NIA)[5].

On the other hand, FICN seized by police is inclusive of seizures at the borders, and within Indian cities by various enforcement entities. Decreased seizure by police with an increased seizure by the banks can point to deep penetration of FICN in the Indian society. Higher seizure levels at banks, which are used by customers in the cities and rural areas, establishes the fact that the network has been successful in circulating FICN to the end-users. The very fact that there was a higher incidence of seizure at banks clearly indicates that FICN has already reached its last level of the network, where the users are innocent persons who are not aware of its antecedents. The penetration levels are so high that FICN has found its way into the currency chests of nationalised banks. For instance, in 2008, around 75,000 pieces of FICNs to the tune of Rs 4.02 crores (Rs 40 million approximately) were detected at the currency chest of a nationalised bank in Uttar Pradesh (UP; Reserve Bank of India, 2009a). In another ironical instance, a fake note was dispensed by an automatic teller machine installed inside the Indian Parliament (The Times of India, 2009).

Given the above, the penetration and significance of the threat from FICN viewed from India's national and economic security prism stands more pronounced and magnified. FICN has been mentioned as one of the major sources of funds for terrorists (Financial Action Task Force, 2010, p. 13). This places further incentives for researching the network and its linkages.

Mapping the FICN network

There are two main variants of FICN. One which is printed locally in India, used by criminal groups and is of low quality, and the other is high-quality FICN printed mostly outside India. The latter's impact is far greater and graver than the former; hence, the focus of this paper would revolve around that[6]. FICN is then smuggled into India through different modes and circulated inside at different places. There are different levels in the FICN circulation network in India. The first level is the suppliers at the top, followed by main distributors in the border regions of India, followed by subgroups which distribute these to the end-users. There could be more levels, depending on the location. The players in the first three levels have clear knowledge about FICN, while the last-level users are the victims most of the time.

Origination point

The source or supply of the FICN begins at the origination point. This is the point where the fake currencies are printed. Open-source reports based on intelligence as well as statements from apprehended kingpins involved suggest that the present origin of FICN is Pakistan. Pakistan has flooded India with fake currency notes to help criminal gangs and terrorists finance their activities and also to impact the economy through inflation (Nanjappa, 2009; Ravindranath, 2009). The increased sophistication, quality of notes and similarity in features point to a state actor, as non-state actors do not have the resources and the access to high-quality paper, ink and the design templates. Pakistan, which has unfettered access to such ingredients like high-quality paper, has imported these printing papers from the UK in excess quantities, more than their usual requirements (Ravindranath, 2009). Pakistan's intelligence agency, known as the Inter Services Intelligence (ISI), has also managed to gain access to the design templates of

Indian currency notes to improve the authenticity of the FICNs (Nanjappa, 2009). Once these fake currencies are printed, they are moved to the next tier, which acts as a staging post. To avoid detection, most of these are printed in ships outside India near Pakistan and stacked into containers.

Gateways

The next level is where FICNs are moved into locations which act as gateways before they are finally smuggled into India. These locations are outside India. According to documented evidence, Dubai, Bangladesh, Nepal, Myanmar, Bangkok and Colombo are used as points to send FICN into India. Of these, Dubai is the primary gateway point, which redistributes to other gateways by air. The initial routes were through Kathmandu in Nepal. From 2009 and 2010, approximately Rs 24 crores of FICN have been recovered in Kathmandu alone, resulting in the arrest of six Pakistani couriers (Dasgupta, 2010). Pakistani embassy officials in Kathmandu have been arrested for possession of FICNs (The Hindu, 2000). The extent of proliferation of FICNs in Nepal assumed such enormous proportions that the government banned exchange of Indian currencies of denomination Rs 500 and Rs 1,000 inside Nepal. However, a circulation ban with a heightened vigil inside Nepal as well as along the Indo-Nepal border forced the perpetrators to look for alternate routes. The next prominent one was the porous Bangladeshi border, which was used to smuggle in FICNs. Bangladesh, which shares its borders with at least five Indian states, has been used to smuggle FICNs. In some instances, FICN bundles are thrown over the border fences and are picked up by smugglers on the Indian side. Recently, Rs 6 crores (Rs 60 million approximately) worth of FICNs were seized from a Qatar Airways plane from Pakistan which landed in Hazrat Shahjalal International Airport in Dhaka (The Business Standard, 2014). Of the countries which share land borders with India, Bangladesh and Pakistan have been widely used to smuggle in FICN (Table II).

However, heightened security along the land routes has forced FICN peddlers to look for alternate routes through air. Trends indicate that Dubai, Bangkok and Colombo are being widely used to send FICN consignments into India via the air route. Recent trends indicate that FICN is smuggled from Dubai to Hyderabad, where it is redistributed to other modules upon landing. The migrant labourers from Andhra Pradesh (AP) who go to Dubai for work are susceptible, as they are offered free return tickets to India in exchange for carrying FICN from Dubai. However, recent open-source publications indicate that Southeast Asian states like South Vietnam have been used to smuggle

Year	Indo-Bangladesh	Indo-Pakistan	Indo-Nepal	Indo-Myanmar
2010	3.226	13.783	0.592	0.0012
2011	4.486	4.445	0.0074	0.0007
2012	6.609	6.041	0.149	0.158
2013 till Feb	1.271	2.136	0.0005	0.0013

Notes: [a] Figure complied from the following sources: Government of India, Lok Sabha Archives (2013). Written statement by Mr M. Ramachandran, former Minister of State for Home Affairs, to Parliament in response to a question on FICN entering India through land borders. Available at: http://164.100.47.132/LssNew/psearch/QResult15.aspx?qref=141629

Table II. Seizure of FICN at borders (Rs in millions)[a]

FICN into India. Colombo in Sri Lanka is fast emerging as a distribution gateway for FICN (Tiwary, 2012).

Ingress points and circulation points

The ingress points are points which act as entry points into India. The smuggling routes could be either a land route or an air route. Till date, sea-based ingress points have not been documented. However, this cannot be ruled out completely, as India has got a huge maritime border which is difficult to monitor. The 2008 Mumbai attack is an apt example of how sea-based ingress could happen into India. Places like Kutch in Gujarat and Tuticorin in Tamil Nadu (TN) are traditional sea-based smuggling routes which could be used. However, it has to be reiterated that no such cases of FICN smuggling via sea routes have been documented yet. On the other hand, circulation points are those which receive FICN from other Indian locations, where the FICN is exchanged or traded by the end-user.

Open-source reports indicate that UP and Bihar are the entry points via land route along with Mumbai and Hyderabad via the air route (Biswas, 2011). However, some fine layers within these networks are still not mapped, as it would be difficult to penetrate and have a significant pan Indian presence with only the abovementioned entries into India.

Hence, to study and understand the next two levels, i.e. the ingress points and the circulation points, seizure level has to be mapped and studied state-wise (Table III). These data again have to be studied more in a granular form to find out the potential circulation points. To break it down further, the FICN network within India constitutes states, cities and places which can be demarcated as ingress points, circulation points and locations with both these activities integrated.

Factoring the total seizure levels from 2003 to 2011 and their proximity to land borders with countries like Bangladesh, Pakistan and Nepal (which are already proven to be key gateways), states like UP, Bihar, West Bengal (WB), Rajasthan, Punjab, Assam, Jammu and Kashmir (J&K) and Chandigarh act as key ingress points. They could also act as circulation points. However, counter arguments could arise about exclusion of other states which have far higher seizure data compared to the ingress points. This however is due to the fact that though there are other states like Delhi, TN, Maharashtra, Karnataka, AP, Gujarat and Kerala with higher seizure records, their primary activity is not providing access but acting as circulation points. However, it has to be stated that the state capitals of these states are also increasingly used by traffickers to bring in FICN through air from Dubai, Colombo and Bangkok, as the land routes have become vulnerable for the traffickers. Yet, the ingress activity occurs only as a secondary activity to the primary activity of circulation. Another granular fact that would buttress the theory of identifying circulation points from the above list is taking into account the seizure value of FICNs seized at banks compared to the police seizures in each of these states (Table IV, states with high seizure records only have been depicted).

From the above table, states like Assam, J&K, Punjab, WB and Chandigarh are pure ingress points, as the higher seizure by police and lesser or insignificant seizures in the banks indicate lesser penetration in the banking channel. On the other hand, states like Karnataka, Maharashtra, TN and Delhi are pure circulation points with very minimal ingress activity, or in other words, all these places assume the end point of this FICN

Table III. State-wise FICN seizure data from 2003-2011 (Rs in millions)[a]

State	2003	2004	2005	2006	2007	2008	2009	2010	2011	State-wise total
Andhra Pradesh	5.5	6.1	14.4	8.4	8.9	11.29	25.2	21.3	26.9	128
Arunachal Pradesh	0.013	0.002	0.039	0.023	0.027	0	0.30	0	0.011	0.415
Assam	3.0	1.2	1.7	1.2	2	1.5	2.9	2.0	1.3	16.8
Bihar	3.8	2.6	2.0	1.1	1.2	2.7	4.9	8.9	8.3	35.5
Chhattisgarh	0.17	0.23	0.36	0.49	1.4	1.3	1.4	0.25	0.27	5.87
Goa	0.03	0	0.072	0.026	0.14	0.66	0.97	0.42	0.68	2.99
Gujarat	6.4	2.8	3.2	5.0	8.9	10.4	11	10.9	23.1	81.7
Haryana	0.38	0.31	0.15	0.52	0.68	0.85	0.93	1.9	0.22	5.94
Himachal Pradesh	0.011	0.032	0.012	0.003	0.077	0.23	0.047	0.28	0.14	0.832
Jammu & Kashmir	8.8	1.8	2.1	1.8	0.98	0.82	2.0	1.7	3.8	23.8
Jharkhand	0.033	0.14	0.061	0.084	0.62	0.66	0.43	4.3	0.26	6.58
Karnataka	2.6	2.2	5.7	8.8	9.5	11.6	13.0	10.4	8.7	72.5
Kerala	1.3	1.2	2.5	1.3	5.2	4.6	11.7	5.3	5.5	38.6
Madhya Pradesh	0.44	1.1	1.5	0.76	1.6	2.5	3.6	3.5	1.6	16.6
Maharashtra	6.7	15.0	7.7	12.7	7.4	24.7	32	40.8	46.4	193.4
Manipur	0.21	0.41	1.0	0.046	0.034	0.011	0.03	0.006	0.026	1.77
Meghalaya	0.03	0.035	0.014	0.079	0.21	0.17	0.010	0.19	0.032	0.77
Mizoram	2.6	0.79	0.037	0.14	1.4	2.6	0.063	1.5	0.003	9.13
Nagaland	0.12	0	0.071	0.35	0.10	0	0.026	0.054	0.12	0.841
Odisha	0.47	0.62	0.64	0.88	1.0	1.3	2.2	2.8	2.4	12.31
Punjab	4.0	7.2	3.7	10.0	3.5	4.7	12.5	7.3	1.7	54.6
Rajasthan	2.3	5.9	5.2	2.6	5.1	12.2	9.0	10.9	9.2	62.4
Sikkim	0.34	0.001	0.001	0	0.035	0	0.016	0.039	0.061	0.493
Tamil Nadu	3.5	8.2	3.4	6.6	5.7	12.7	21.6	28.2	20.4	110.3
Tripura	0.11	0.095	0.097	0.047	0.35	0.31	0.069	0.065	0.077	1.22
Uttar Pradesh	6.3	6.7	5.3	9.2	22.6	108.0	22.5	46.6	23.0	250.2
Uttarakhand	0.072	0.057	0.017	0.98	0.68	0.24	0.70	0.50	0.18	3.426
West Bengal	3.9	2.7	3.1	3.6	8.2	10.5	18.5	30.1	19	99.6
Chandigarh	0.77	1.2	1.2	1.6	4.3	5.5	0.061	7.1	3.6	25.3
Delhi	3.8	5.7	3.0	3.6	3.8	25.6	24.4	29.8	49.3	149

Notes: [a] Data obtained and compiled by the researcher from National Crime Records Bureau vide the Right to Information Act. Andaman and Nicobar Islands (A&N), Daman & Diu (D&U), Pondicherry and Dadra and Nagar Haveli have been excluded, as the seizures are insignificant

network because higher detection at branches in the above states indicates that FICN is already in circulation at the hands of end-users or victims, as it would be very naive to imagine an FICN racketeer swapping or changing his fake notes over the counters at a bank.

Finally, there are states which act as ingress points as well as circulation points, like AP, Gujarat, Kerala, Rajasthan and UP. In spite of high banking seizures, UP is listed in this category, as there had been a one-time seizure of Rs 4 crores (Rs 40 million) in 2008, which pushed up the seizure data. AP, Gujarat and Kerala have witnessed high seizure levels by the police, which could support the theory that the FICN is brought in through the air route. Kerala (with its huge immigrant population in Dubai), AP (with its huge labour population working in the Gulf countries) and Gujarat (with its trader population) could ideally provide the FICN traffickers with a healthy pool of willing travelers who could act as couriers between Dubai and India for a commission and a

Table IV.
State (selected) wise seizure data (comparison police vs banks) 2003-2011 (Rs in millions)[a]

Year	AP1	AM	BH	GU	J&K	KN	KL	MH	PU	RJ	TN	UP	WB	CH	DL
03(B)	1.7	1.2	3.5	2.1	0.27	0.99	0.40	4.1	0	1.7	1.5	3.1	3.2	0.016	3.5
03(P)	5.5	1.7	0.23	4.3	0.61	1.6	0.95	2.5	4.0	0.52	2.0	3.1	0.69	0.77	0.29
04(B)	1.5	0.67	2.6	1.4	0.55	1.5	0.59	3.4	0	2.1	1.6	2.3	1.5	0.028	4.3
04(P)	4.6	0.57	0.02	1.3	1.3	0.72	0.61	11.6	7.2	3.8	6.5	4.3	1.2	1.2	1.4
05(B)	0.79	0.84	1.3	1.2	0.22	2.9	0.51	1.5	0	1.2	1.3	2.5	1.3	0	2.0
05(P)	13.6	0.95	0.72	2.0	1.9	2.7	2.0	6.1	3.7	4.0	2.0	2.8	1.7	1.2	0.98
06(B)	0.58	0.42	0.82	1.8	0.36	1.8	0.64	1.1	0	0.95	5.0	1.8	1.7	0.034	1.1
06(P)	7.8	1.2	1.0	3.2	1.5	7.0	0.72	11.5	10.0	1.7	1.5	7.4	1.8	1.6	2.4
07(B)	0.32	0.32	0.56	4.7	0.26	3.6	0.67	3.7	0	2.2	4.6	7.5	2.5	0.045	3.4
07(P)	8.5	1.9	0.71	4.2	0.78	5.9	4.5	3.7	3.5	2.8	1.1	15.1	5.7	4.3	0.32
08(B)	6.7	0.21	1.3	7.2	0.27	8.0	1.1	13.6	0	8.0	8.8	94	1.3	0	24.2
08(P)	4.6	1.3	1.4	3.2	0.55	3.5	3.4	11.1	4.7	4.2	3.9	14.0	9.1	5.5	1.3
09(B)	14.1	0.31	3.6	6.8	0.50	9.7	2.6	26.4	0	8.3	15.7	15.8	3.4	0.061	21.5
09(P)	11	2.5	1.2	4.2	1.5	3.3	9.1	0.62	12.5	0.69	5.8	6.7	15.1	7.3	2.9
10(B)	15.8	0.40	7.0	6.9	0.56	9.2	2.4	34.4	0	7.0	18.7	15.5	7.9	0.023	28.7
10(P)	5.4	1.6	1.8	4.0	1.1	1.2	2.9	6.4	7.3	3.8	9.4	31.1	22.1	7.1	1.1
11(B)	19.8	0.30	6.6	15.1	0.68	8.0	3.0	41.3	0	7.5	20.4	19.8	12.6	0	45.7
11(P)	7.1	1.0	1.6	8.0	3.1	0.69	2.4	5.0	1.7	1.7	0	32.1	6.8	3.6	3.5
T(B)	61.2	4.6	27.2	47.2	3.6	45.6	11.9	129	0	38.9	77.6	162	35.4	0.20	134
T(P)	68.1	12.7	8.6	34.4	12.3	26.6	26.5	58.5	54.6	23.2	32.2	116	64.1	32.5	14.1
Cases	2,241	708	333	2,083	263	802	474	2,097	386	432	1,505	2,102	1,093	23	215

Notes: [a] Data obtained and compiled by the researcher from National Crime Records Bureau vide the Right to Information Act. Abbreviations depicted: Andhra Pradesh (AP1), Assam (AM), Bihar (BH), Gujarat (GU), Jammu and Kashmir (J&K), Karnataka (KN), Maharashtra (MH), West Bengal (WB), Kerala (KL), Punjab (PU), Rajasthan (RJ), Tamil Nadu (TN), Uttar Pradesh (UP), Chandigarh (CH), Delhi (Dl). B (seized at Banks), P (seized by Police). Years are depicted in YY format paid return ticket. This analysis differs from other open-source reports, especially on Bihar, as it has been mentioned only as an entry point in other reports (Biswas, 2011), but the data in the paper do not provide any evidentiary trail of physical police seizures alone to support such a claim. On the contrary, the FICN penetration in the banking channel in Bihar is high compared to police seizures, which indicates that it is also a circulation point.

Cities with important financial and business centres are mostly used as the final circulation points. The network uses the railway network to transport FICNs to southern Indian states like TN, Karnataka and AP. The usual *modus operandi* used is to send these FICNs through migrant labourers who travel to southern India to work in infrastructure projects. These persons get a share or a commission for exchanging the FICN to genuine notes. In this manner, most of the arrested belong to the lower echelon that does not have any direct connection with the kingpins. For instance, around 32 cases have been registered in TN alone against persons from Bihar, WB, Jharkhand, UP, Madhya Pradesh and Delhi for circulating FICNs (Figure 1).

After the exchange is made, the exchanged genuine money is deposited in the bank accounts of the second-level operatives. Investigations have traced the bank accounts to kingpins who control this trade from different parts of India. The genuine money which is exchanged is deposited in various bank accounts in Bihar, UP, Noida (Delhi and UP) and Malda and Murshidabad in WB. Of these, Malda is a major distribution hub where FICNs from Bangladesh are distributed through local gangs for further onward journey. However, the real operational head of this network would operate away from the scene of action. In one instance, a particular account held with a nationalised bank in Sahebganj district in Jharkhand had received funds deposits from Faridabad (UP), Mumbai (Maharashtra), Ahmedabad (Gujarat), Bangalore (Karnataka), J&K, TN, Vishakhapatnam (AP) and Thiruvananthapuram (Kerala). These are payments which were deposited after the FICNs were exchanged. The FICN in question originated from Malda, WB border and the exchange happened in TN, while the kingpin operated from Jharkhand.

The law enforcement authorities have not been able to trace the whereabouts of the masterminds, as the network is multilayered with both local criminal gangs as well as non-criminal persons acting as last-level exchangers. Hence, the network within India is highly compartmentalised. The attractive margins draw different people from different strata with different objectives, one drawn by money and another drawn by ideology. The prevalent exchange rate is usually reported as 50:50 basis in most of the open-source reports; however, factoring in the involvement of different sets of people, it is highly unlikely that 50:50 is the universal prevailing rate, which, ideally and logically too, should change as the network advances into India[7]. For instance, if the same 50:50 exchange rate is prevailing at all the points of the FICN network, the second-, third- and fourth-level operatives will not have any monetary motivation to participate in this criminal activity. The fact that even no criminals participate in this network certainly supports the theory that it is still lucrative even at the last segment or the circulation points. Like a narcotics network, the highest risk taker is the operative at the last leg who would benefit from a higher margin. Hence, likewise, the risk takers in the FICN network will be compensated more compared to a handler at the ingress point and at the gateways. However, this understanding will certainly vary from other open-source reports about the FICN on this compensation model stating that the handlers are paid

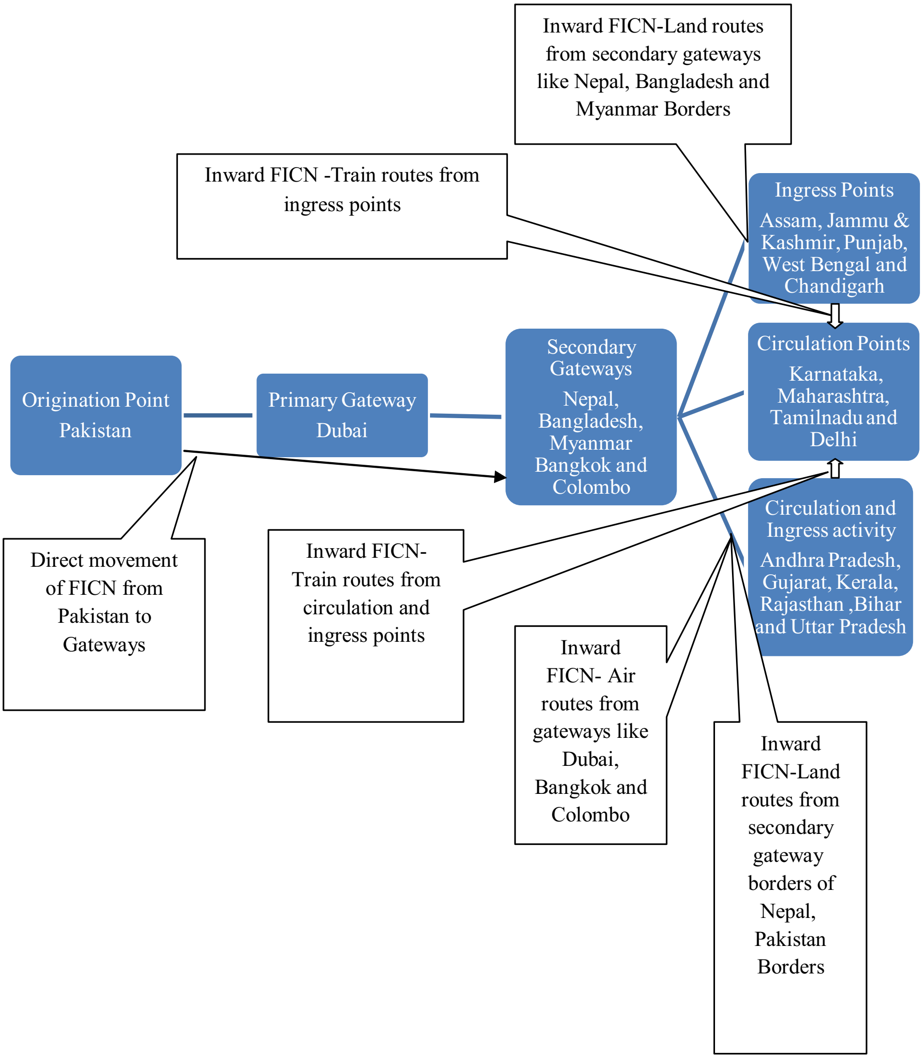
Inward FICN-Land routes from secondary gateways like Nepal, Bangladesh and Myanmar Borders
Inward FICN -Train routes from ingress points
Ingress Points
Assam, Jammu & Kashmir, Punjab, West Bengal and Chandigarh
Origination Point
Pakistan
Primary Gateway
Dubai
Secondary Gateways
Nepal, Bangladesh, Myanmar Bangkok and Colombo
Circulation Points
Karnataka, Maharashtra, Tamilnadu and Delhi
Circulation and Ingress activity
Andhra Pradesh, Gujarat, Kerala, Rajasthan ,Bihar and Uttar Pradesh
Direct movement of FICN from Pakistan to Gateways
Inward FICN- Train routes from circulation and ingress points
Inward FICN- Air routes from gateways like Dubai, Bangkok and Colombo
Inward FICN-Land routes from secondary gateway borders of Nepal, Pakistan Borders

Figure 1.
A diagrammatic representation of the FICN network in India

more. In reality, FICN operatives at the lower end have been offered more than the usual 50:50 sharing basis in some cases in TN. To imagine a highly compartmentalised network such as the FICN network in India, operating without any additional compensation at each level commensurate with the risk involved is unthinkable in the annals of crime. Hence, factoring the above argument into account, the payment mechanism has to be necessarily staggered and differential, which increases as it advances to its destination.

Firstly, the swap ratio begins with the source points in Pakistan. It would only be prudent to assume that the ratio of 50:50 begins here, i.e. for every Rs 100 fake note, the provider gets Rs 50 in genuine currency. The recipients are the handlers located in the gateways who are members of the criminal network connected to Dawood Ibrahim, (the mastermind wanted in the 1993 Mumbai blasts). The ideal ratio here would be 60:40, i.e. for every Rs 100 fake note, the provider gets Rs 60 in genuine currency, which takes the FICN network to the ingress points. The local criminal networks in Malda (WB), Murshidabad (WB), Bihar and Sitapur (UP) manage the network from here, where the swap ratio is 70:30, i.e. for Rs 100 fake note, the provider gets Rs 70 in genuine currency. The final leg is mostly handled by migrant labourers who deposit Rs 70 for every Rs 100 fake note exchanged in the account of the masterminds and pocket the remaining Rs 30 to manage their poor economical conditions. However, the lucrative margins also attract another set of people, whose main objectives is not money alone but also ideology.

FICN and terrorism

Terror groups in India, especially the *Lashkar e Toiba* (LeT) and the *Indian Mujahideen* (IM), have circulated FICN in India. Pakistan's ISI is the main source of these FICNs, which raises around Rs 1,800 crores (Rs 18 billion) through the FICN route alone for anti-India activities (Nanjappa, 2008).

Indian terror groups, especially the IM, have been using FICN, which is smuggled through land, sea and air routes from Pakistan, to finance their operations in India. India's former Defence Minister Mr A.K. Antony has gone on record to state that FICN is a well-known source of fund for terror groups operating in India (Antony 2013). The NIA, which was formed to investigate terrorism and terrorism finance cases, is investigating seven cases related to FICN, of which one has been found to be involved in terror funding (Singh, 2013).

David Coleman Headley, who has been part of the LeT's reconnaissance team before the Mumbai 26/11 attacks in 2008, has claimed that a Pakistani ISI officer named Major Iqbal gave FICN to be used in India[8]. Abdul Karim Tunda, one of the top LeT operative who was arrested, has also confessed that an ISI Brigadier gave him FICN to be circulated in India (The Midday, 2013).

According to a charge sheet filed by the Delhi special police cell on the activities of the IM, one of the objectives of the IM is to weaken the Indian economy by way of circulation of FICNs and discourage foreign investment through violence (South Asia Terrorism Portal, 2016). This is commonly called as "Mashi Jihad" (roughly translates to waging financial war against India) among the FICN peddlers.

A Delhi police team which arrested six IM members, including Mohammed Qateel Siddique, who was involved in Pune, Bangalore and Jama Masjid bomb attacks in 2010, recovered around Rs 2 lakhs (Rs 0.2 million) worth of FICN in Siddique's possession[9]. In 2009, Yasin Bhatkal, Chief of IM operations in India and mastermind of Pune bakery blasts and the Delhi high court blasts, was arrested by the Kolkata police for his involvement in a fake currency racket originating from Bangladesh (The Economic Times, 2011). However, the police, who did not realise the importance of Bhatkal (he pretended to be Mohammed Ashraf from Darbhanga district in Bihar), released him later, mistaking him to be a petty criminal (Khetan, 2013). In 2011, the Mumbai Anti-Terrorism Squad arrested Asrar Ahmed Abdul Hamid Tailor, a computer trainer, and Haroon Rashid Abdul Hamid Naik in a fake currency racket. Both are suspected to be IM members involved in the 2011 serial blasts (Zee News, 2011). It is also believed that cells behind the 2008 Bangalore blasts and 2013 Hyderabad blasts are believed to be involved in FICN circulation through criminal groups (Vudali, 2013). In the later half of

2012, at least ten FICN circulation gangs have been busted within Hyderabad (Vudali, 2013).

In direct contrast to the criminal gang-driven FICN networks, the FICN network of the terror groups like the IM is highly de-compartmentalised. Most of the operatives arrested are hardcore members of the IM, which supports this argument. Groups like the IM would benefit from the absence of multiple layers in the network, which would push their margin considerably. This would actually translate into larger operational funds, which could be used to fund terror activities.

Most of the FICNs seized or majority of them pertain to terror groups or groups related to them. The reason this study deduces the analysis that the terror groups are involved is because of the high quality of the FICNs seized. The very fact that high-quality FICNs were seized establishes the involvement of actors like Pakistan (for reasons aforesaid), which has such a capacity to run and operate FICN networks in India. The genuine currencies which a group will get to finance its activity will be very high, considering the exchange rate (1:2). A simple "behind the envelope" calculation reveals some interesting analysis. For example, the total FICN seized in 2011 is Rs 25 crores (Rs 250 million); applying the exchange rate, a group will be left with Rs 12.5 crores (Rs 125 million) worth of legal money. This is 50 per cent of the IM's annual budget of Rs 25 crores (Rs 250 million). Hypothetically, consider that only 50 per cent of this amount is deployed by the IM for its operational funds, then, the IM would have Rs 6 crores (Rs 60 million) to carry terror attacks. Given this budget, the IM will have operational funds to conduct 40 train bombings similar to the Mumbai blasts (2006), which had an operational budget of Rs 15 lakhs (Rs 1.5 million), and 200 bomb blasts similar to the Pune blasts (2012), which had an operational budget of Rs 3 lakhs (Rs 0.3 million).

Conclusion

To conclude, the FICN network has penetrated almost all of the Indian states, except for the smaller ones, where there is no large business or trade activity for them to disguise their circulation activity. The gravity of the situation which may not be tangible could be much worse, as banks in rural areas are not equipped with fake currency note detectors. Banks in states like Maharashtra, Delhi, Kolkata, TN, Karnataka, Kerala, AP and UP are equipped with fake note detection apparatus. Barring banks in major metropolitan and bigger cities, most of the banks in rural areas are not equipped with fake currency detection machines. Other forms of financial transfer agents like post offices, which are widely connected in the rural segments, are highly vulnerable. According to the information provided by the Indian Post via the Right to Information Act to the researcher, only 3 per cent of the total 0.15 million post offices spread across India have fake currency detection machines.

Apart from the above states, FICN circulation is in its nascent stage in states like Madhya Pradesh and Odisha. Northeast states could also be used to smuggle FICN, if the traditional routes are compromised.

Increased sophistication can be witnessed in FICN circulation and quality. For instance, guide wires are also copied finely in these FICNs, which is the reason why they evade tighter detection mechanisms. Regardless of improved safety features which might be incorporated into the Indian currencies, most of them, if not all, will be duplicated, rendering the detection mechanisms redundant. Increased sophistication in

FICN quality points to players who have access to quality paper, ink and other high-end printing machinery.

From a law enforcement perspective, investigations into FICN networks have to encompass the investigative angle about the linkages to terror groups, as more and more terror modules have been discovered peddling FICNs in India. The distinction between local criminal gangs and terror groups is becoming blurred, as more of each are drawn into this vicious cycle. From a counter terrorism angle, the first step would be to identify and remove these nodes which manage the ingress points. The next step would be to target the handlers in gateways, which would be beyond the brief of the local agencies. This would involve the Indian Government, which would have to address this as a foreign policy issue if we are to track the players located in the gateways. Controlling this menace has been, is and will be a real challenge, given the conviction of only last-level offenders in FICN network instead of the kingpins. Unless this narrative changes to target the source of these FICNs instead of last-level offenders, this network would be eternal.

However, unlike contrabands like narcotics and gold, which have use in multiple countries, FICN can be used as a criminal resource only within India. Hence, the Indian Government has to worry only about the inward flow and not outward flow of FICN, which could render India as another gateway. The Indian rupee is used only in India and does not have global usage like the US dollar; hence, use of FICN outside India is ruled out, which otherwise could have magnified the problems manifold.

There are clear linkages between FICN, drugs, arms and terrorism. FICN is the most important source of funds for terror groups in India. FICN is a clear and present danger to the Indian national security as well as to the economic security of India. FICN has multi-dimensional characteristics in a financial network of a terror group. It acts as a source of income, mode of value transfer through smuggling and also as a storage mechanism. The transformation witnessed in FICN networks in India, from a mere criminal network to a well-oiled machinery involving locals and foreigners from both within and outside India, has effectively transformed the FICN networks as a "network of networks".

Notes

1. Former governor of RBI Dr D. Subbarao has stated in his 2010 speech that the 2008 figure of 8.1 Indian fake notes per million compared with other countries is not alarming.
2. Bose and Das' (2013) figures of fake notes detected per million are as follows: 4.4 in 2007-2008, 8.1 in 2008-2009, 7.1 in 2009-2010, 6.7 in 2010-2011 and 7.51 in 2011-2012, with an average of 6.9. Higher denomination figures are 9.7 in 2007-2008, 18.3 in 2008-2009, 17.1 in 2009-2010, 16.8 in 2010-2011 and 18.2 in 2011-2012, with an average of 16.4.
3. FIU-IND was set up in 2004 and became operational in 2006. It was established to receive, analyse and disseminate information related to suspicious, cash and counterfeit currency for further action to the concerned law enforcement, regulatory bodies and intelligence agencies. FIU-IND reports directly to the Economic Intelligence Council (EIC), which is headed by the Finance Minister.
4. FATF is an intergovernmental body that sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money

laundering, terrorist financing and other related threats to the integrity of the international financial system. *Source*: FATF website.

5. Section 12 of PMLA 2002 which came into effect in 2005 obligates all constituents of financial and banking sector to report transactions related to counterfeit currency known as counterfeit currency reports (CCRs). This forced the banks to tighten their monitoring mechanisms, which translated into higher detection levels from 2008. PMLA was further amended in 2009 to include FICN trafficking as an offence without any threshold limit.
6. For the purpose of this paper, FICN refers to the high-quality fake currencies printed outside India.
7. The prevalent exchange rate for a genuine currency with an FICN is 50/50 at most of the exchange points. However, these exchange rates vary from place to place, ranging from 50/50 to 70/30 in favour of the provider.
8. As stated in the interrogation report of David Coleman Headley, LeT member and who conducted the reconnaissance for the 2008 Mumbai attacks (known as 26/11).
9. Information obtained from Delhi Police Special Cell vide the Right to Information Act.

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